



HF 653 – Local Exchange Carrier Property Tax (LSB 2041HV)
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Fiscal Note Version – New

Description

House File 653 alters the basis of property taxation for certain local exchange carriers (telephone companies). The change applies to companies with fewer than 50,000 customer lines in the Iowa. The change will make the property of the companies subject to property tax in a manner consistent with the commercial class of property. The property will also move from being centrally-assessed by the Department of Revenue to being locally assessed.

The change is effective with valuations determined January 1, 2012, (FY 2014) or after.

Background

Currently, local exchange carriers are assessed by the Department of Revenue. In determining the assessed value of the property, the Department is required to determine the value of all company property of any character, whether real, personal, or mixed. This differs significantly from the processes utilized for assessing the commercial class of property.

Assumptions

- The commercial rollback will be 100.0%.
- The average property tax rate for the impacted companies in FY 2014 will be \$30.00 per thousand of taxable value and that rate will increase 1.4% each year.
- Estimated assessed value under current law and under the proposed law was provided by the Department of Revenue.
- The State School Aid Foundation levy is \$5.40 per thousand.

Fiscal Impact

House File 653 will reduce the assessed value of local telephone companies with fewer than 50,000 customers. The projected impact on the State General Fund School Aid appropriation, local government property tax revenue, and the property taxes paid by the impacted telephone companies is presented in the final three columns of the following table. The impacts will be similar in future fiscal years.

Property Tax Reduction, State School Aid Increase, and Local Government Revenue Impacts of HF 653								
Assessment Year	Fiscal Year	Assessed Value Under Current Law in Millions	Assessed Value Under Proposed Law in Millions	Assessment Reduction in Millions	Average Tax Rate of Impacted Companies in Dollars per Thousand	State School Aid Increase in Millions	Local Government Tax Revenue Decrease in Millions	Property Tax Reduction for Companies in Millions
2012	2014	\$482.3	\$95.5	\$386.8	\$30.00	\$2.1	\$ -9.5	\$ -11.6
2013	2015	492.0	98.4	393.6	30.42	2.1	-9.9	-12.0
2014	2016	501.8	100.4	401.4	30.85	2.2	-10.2	-12.4
2015	2017	511.9	104.4	407.5	31.28	2.2	-10.5	-12.7
2016	2018	522.1	106.5	415.6	31.72	2.2	-11.0	-13.2

The actual impact to local governments will depend on whether a local government is willing and able to raise property tax levies above where they otherwise would be in response to reduced taxable value.

- If, in response to the reduced taxable value, no local government sets a tax rate higher than they otherwise would, then the local government revenue decrease will be \$9.5 million in FY 2014, and the average property tax rate statewide will not be impacted.
- Using the FY 2011 Statewide taxable value of all property (\$133.89 billion), an average tax rate increase of 7.1 cents per thousand would be necessary to fully replace \$9.5 million in reduced FY 2014 local government tax revenue. If all local governments are willing and able to set rates higher than they otherwise would in order to capture the same level of revenue, the statewide average property tax rate would be \$0.071 higher and local government revenue would be unchanged.
- The likely result is a mixture of higher tax rates and lower local government revenue.

Since the change in property assessment method only applies to a subset of companies engaged in the same business activity (telephone companies with fewer than 50,000 lines), the change could produce a constitutional challenge. Should the law change be determined unconstitutional on equal protection or other grounds, the fiscal impact of the change could be significantly different. A constitutional challenge could result in the assessment change being required for all telephone companies, not just those with fewer than 50,000 customers. Such a decision would significantly increase the ultimate fiscal impact of [HF 653](#).

Source

Department of Revenue

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to Code [Section 2.56](#). Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
